

EXHIBIT B



**Internal Audit Report
Advanta Bank Corp.**

**Advanta Business Cards
Collections Audit Review**



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Executive Summary

OVERVIEW

Internal Audit recently completed a review of the design and operating effectiveness of internal controls over certain collections practices and procedures that directly impact the Advanta Business Cards Collections incentive compensation process, including a follow-up on recommendations made in the previous Collection Incentive audit review reported in October 2005. Collections employees who reach pre-defined performance levels are eligible to receive additional bonus compensation. The purpose of the Collections Incentive Compensation Plan is to reward and retain exemplary performers while promoting teamwork through the use of team and individual bonus awards.

OVERALL OPINION ON THE SYSTEM OF INTERNAL CONTROLS

In our opinion, Management's priority attention is necessary to strengthen the design and operating effectiveness of the system of internal controls related to certain Collections practices and procedures that directly impact the Collections Incentive Compensation process, particularly in the following areas: *Quality Control and Compliance Coverage, Authority and Reporting; Cell Phone Usage and Monitoring; the Management Override Process; the BankServ Negative File Process and Controls over Electronic Funds Transfer (EFT) payments; and Incentive Plan Documentation*. In addition, collections standard operating procedures should be updated in conjunction with implementing the necessary process and control enhancements to promote further consistency in operational workflow.

During the period of our review, Internal Audit and Collections Management notified Human Resources Management about suspicious actions taken by two collectors. The collectors processed cardholder EFT payments from a non-existent or fictitious bank account number in an attempt to demonstrate that a payment was authorized by the customer to be made from that account on a pre-determined date. These actions resulted in the two collectors receiving enhanced incentive payments in the months that the EFT payments were processed, as well as temporary delays in charging off the affected accounts. The EFT's were subsequently returned and were correctly reversed from the customers' accounts, however, this occurred after the incentive payments were made to the collectors.

Based on a collective review of the facts and circumstances by Internal Audit, Credit Administration and Collections Management, the two collectors were terminated. In addition, Internal Audit reviewed the detailed transaction information pertinent to the review of the two collectors with Finance and Accounting Management. Based on this review, the amount of the additional incentive paid to the collectors and the temporary impact on the timing of reported chargeoffs was immaterial for financial reporting purposes. Several processes and controls will be strengthened as a result of the identified issues and the concurrent Internal Audit review as noted herein. In addition, Credit Administration is in the process of evaluating whether there is a need for additional independent quality control procedures related to the collections practices covered in this audit review.

We have discussed the findings noted in the *Control Design Enhancement Recommendations* section of the report with Advanta Business Cards Collections Management. Their responses, including plans for corrective action, follow each finding.

Control Design Enhancement Recommendations

SCOPE SUMMARY

The scope of the audit review included an evaluation of the design and operating effectiveness of internal controls, a review of operating procedures in effect during the review period May 2006 to May 2007, and certain detailed testing based on relative risk to ensure:

- Roles and responsibilities are clearly defined.
- Formal procedures for all key processes are appropriately documented.
- Proper segregation of duties exists over all key functions.
- Management control reports are in place and provide the necessary information for monitoring key functions.
- Quality control and compliance activities are formalized, comprehensive and timely, including documentation to support full resolution and final disposition of identified items.
- Standard operating procedures and practices promote compliance with applicable Federal Regulations.
- Company cell phone usage is clearly and properly documented and monitored.
- EFT collection payments are properly authorized, recorded and dispositioned. In addition, controls are adequate over the BankServ Negative file which provides functionality to block the ability to process additional EFT transactions on accounts with a history of prior returns based on pre-defined criteria.
- Management overrides of incentive calculations are properly approved and monitored.
- Incentive Compensation Plans are properly analyzed, formalized, approved, documented and monitored. In addition, these incentives are in compliance with management's objectives and established policies (e.g., ABC Credit Policy) and procedures.

Control Design Enhancement Recommendations

This section contains a description of the control design enhancement recommendations along with Management's action plans.

1. Quality Control and Compliance Coverage, Authority and Reporting

The scope, coverage, authority and reporting capabilities of the Collections quality control and compliance activities requires strengthening to further ensure that Collection practices adhere to established policies and procedures, regulatory requirements and management objectives. (*Detailed findings were provided to Management*). We recommended that Collections Management:

- Re-evaluate and expand the scope and coverage of the quality control and compliance activities related to collections activities. The following areas of focus, as defined by Collections Management and Internal Audit, should be considered for expanded review: all collections special incentive programs; additional collection call activities, including but not limited to call disposition, account memos, frequency of calls, and customer contacts; EFT transaction details and return types; collectors with a history of recurring bucket payments; and monetary adjustments.
- Strengthen the authority of the Quality Compliance Group to enforce compliance with policies and procedures, provide formal feedback and recommendations on collections performance and incentives, and to ensure that all identified items are formally responded to and tracked for final disposition. During our review, we noticed certain trends that were communicated to Collections Management in monthly and quarterly quality and compliance reporting, however there was not evidence that the trends were fully researched and formally dispositioned.
- Strengthen Collections reporting to improve the overall monitoring and evaluation of trends based on risk. This enhanced reporting should be centrally produced, formally reviewed with Collections Senior Management in detail on a monthly basis, and noteworthy trends or issues should be fully researched and formally dispositioned. The enhanced reporting packages should include appropriate detail by Collector, Supervisor and Vice President for a rolling 12 month period in the areas of: team and special incentive award payouts, EFT payments and returns, BankServ Negative File transaction history, special incentive activities and Management overrides.
- Require formal Senior Collections Management sign off of the monthly quality and compliance results as evidence of accountability and agreement with final dispositions, including support for exceptions to procedures. These signoffs should include the Collections Senior Vice President, Collections Vice Presidents and the Collections Quality and Compliance Vice President.
- Re-evaluate the payout timeline for all collections incentives to provide the appropriate time for collections management review and final disposition of the monthly quality control and compliance results.
- Formally provide the final monthly quality control and compliance reporting package to Credit Administration and Internal Audit.

Management Action Plan:

Collections Management is in the process of re-evaluating and expanding, as necessary, the scope, coverage, authority and reporting capabilities of the Collections quality control and compliance activities as recommended.

Control Design Enhancement Recommendations

1. Quality Control and Compliance Coverage, Authority and Reporting, continued

Management Action Plan, continued:

- The scope and coverage of the quality control and compliance activities related to collections activities will be expanded to include, for example:

- **EFT Returned Payment by Type** - expand review procedures and internal reports to capture return reason codes and set parameters for treatment of returned payments by those codes (e.g., unable to locate invalid account number, insufficient funds, closed accounts). The target date to capture and report on return reason codes for all EFT returns is August 1, 2007 contingent on assistance from Credit Administration and Internal Audit in developing the appropriate queries and data sources. Collections Management will then continue to expand on the comprehensiveness and precision of this reporting in the third quarter 2007.
- **Adjustments Review** - reviews of negotiated approval requests and other higher risk items as appropriate to ensure adjustments are entered correctly. The target date for this is August 31, 2007.
- **Frequency of Call** - queries to verify that agents are not overtly targeting accounts to boost individual special award incentive, and to ensure they are in the boundaries of expected number of attempts in a day. The target date for this activity is expected to be September 30, 2007 as these queries are not built.
- **Call Disposition** - queries to verify that agents are using appropriate call results which determine when accounts are downloaded into dialer files for follow up. The target date for this activity is expected to be September 30, 2007 as these queries are not built
- **Left Messages** - strengthen overall feedback and coaching opportunities for proper protocol on leaving messages for each collector bucket to ensure compliance with collections policies and procedures beginning in July 2007.
- **External Status Code** - review to verify proper placement of E or F status codes beginning in August 2007.
- **Credit Administration Approval Exceptions** - effective immediately, all emails with proper approvals are being stored centrally and will be included in the monthly Incentive package for signoff.
- A formal meeting was held in July 12, 2007 by Collections Senior Management with all Collection Supervisors and the Quality and Compliance Group to re-enforce compliance with policies and procedures and to communicate the process and control improvements made to the quality control and compliance curriculum, including increased formality and authority. Additionally, the SVP of Collections addressed the entire PA Department in the quarterly Town Hall Meeting on July 18, 2007 by reinforcing zero tolerance for manipulation and reinforcing expectation that compliance to bank policy and procedure is required. The same message will be communicated to Utah Collections personnel by July 31, 2007.
- We have established the weekly Compliance Red Flag meetings where the Collections Quality and Compliance Auditor can formally inform the SVP of Collections of areas where activity may be occurring that need his review and support for redirection.
- Collections reporting will be strengthened with the addition of recommended reports, in particular EFT returns by reason code and by agent, and expanded detail to include a rolling 12 months of data by collector, supervisor and vice president. The enhanced reporting will be implemented in a tiered approach based on risk during the third quarter 2007.

Control Design Enhancement Recommendations

1. Quality Control and Compliance Process and Control Enhancements, continued

Management Action Plan, continued:

- Beginning with the August 1, 2007 reporting package, the monthly quality control and compliance results will be formally signed off by the Senior Vice President of Collections, the Vice President of Collections and the Vice President of Quality and Compliance as evidence of review and accountability of results.
- Collections Management will re-evaluate the payout timeline for all collectors' incentives and review proposed changes to existing practices with Internal Audit by August 31, 2007.
- Beginning with the August 1, 2007 reporting package, the final monthly quality control and compliance results and reporting will be formally provided to Credit Administration and Internal Audit.

2. Cell Phone Usage and Monitoring

During the period of our review, we noted that the use of company cell phones was an authorized collections practice, however, procedures and controls required strengthening to ensure adherence to Collections policies and procedures and Management expectations (*Detailed findings were provided to Management*). We recommended that Management:

- Document formal procedures defining the appropriate use of cell phones for the Collections Department.
- Formally monitor cell phone usage and trends including, but not limited to: cell phones usage compared to the dialer volumes; cell phone call durations; cell phone usage by collections bucket; and, the affect of cell phone usage on quality scores and incentives.
- Implement quality and compliance activities over cell phone activities including: periodic reconciliations of cell phone invoices against the manual cell phone logs; a review of call activities and customer contacts prior to utilizing a cell phone; and proper documentation of cell phone activities through account memos in FDR. The results of these activities should be included in the formal monthly reporting package to Collections Senior Management.
- Coordinate cell phone usage practices with the ABC Compliance Officer to ensure ongoing compliance with applicable laws and regulations (e.g. NACHA).

Management Action Plan:

As of July 2007, the practice of utilizing company cell phones for collections efforts has been discontinued. The cell phones were collected and returned to Purchasing July 13, 2007 and all service was cancelled by IT. Collections Management is currently utilizing new functionality on the Aspect Dialer to provide the same workflow benefit as cell phone usage. The Business Communication announcing this change was made July 17, 2007.

Control Design Enhancement Recommendations

3. Management Overrides Process

- The procedures, practices and controls over management overrides (i.e. Vice President Overrides) should be further strengthened to ensure that all overrides are properly identified, approved and processed in accordance with the Collections Incentive Plan and established collections practices. (*Detailed findings were provided to Management*). We recommended that Collections Management implement the following enhancements:
- Maintain proper documentation to evidence all required Chief Credit Officer incentive payment approvals related to applicable ABC Credit Policy exceptions.
 - Ensure that incentive awards are not paid to collectors (and supervisors where applicable) when they have instances of non-compliance with ABC Policies as defined in the Collections Incentive Plan.
 - Ensure that all management overrides of the adjusted payout amount reported by the Quality Compliance Group as a result of their review of the special incentive programs are properly documented, approved and reported to Collections Management as part of the formal monthly reporting package.

Management Action Plan:

Effective immediately, Management will further strengthen the procedures, practices and controls over management overrides as follows:

- Consistently maintain proper documentation to evidence all Chief Credit Officers incentive payments approvals related to applicable Credit Policy exceptions.
- Ensure that incentive awards are not paid to Collectors employees when they have instances of non-compliance with ABC Policy as defined in the Collections Incentive Plan.
- Ensure that all management overrides are properly documented, approved and reported as part of the formal Collections monthly reporting of quality control and compliance results.
- The Collections Compliance Auditor will ensure the final package contains the required documents with signatures and proper distribution to external partners.

Control Design Enhancement Recommendations

4. BankServ Negative File Process and Controls

Collections Management should work with Vendor Management and Credit Administration to re-evaluate the procedures, practices and controls surrounding the BankServ negative file in general, as well as the process of removing transactions from the file by Collections personnel. The negative file functionality blocks the ability of processing additional EFT transactions on accounts with a history of prior returns based on pre-defined criteria. (*Detailed findings were provided to Management*). We recommended that Management:

- Re-evaluate the current negative file removal procedure to ensure that only necessary removals are being made, particularly in those situations where the cardholder has multiple negative file hits.
- Evaluate the feasibility of further automating the Negative File process either through BankServ or internally. As part of this assessment, Management should consider the following:
 - Emphasizing EFT returns with Advanta only versus all BankServ clients
 - Evaluating the impact of BankServ not including all return types in their counter
 - Evaluating the possibility and relative impact of BankServ aggregating Negative File information by cardholder account versus the existing process of sorting by the ABA account number.

If automation is not possible, management should re-evaluate the practice of Negative File removal requests being manually input by Collectors and formalize the extent to which supervisors are held accountable for the accuracy of the information (i.e., number of prior EFT returns through BankServ, proper levels of management approvals).

Management Action Plan:

Collections Management will work with Vendor Management and Credit Administration to re-evaluate the procedures, practices and controls surrounding the BankServ Negative File in general, as well as the process of removing transactions from the file by Collections personnel by September 30, 2007. As part of this evaluation, Management will consider the feasibility of further automation of the Negative File process either through BankServ or internally. Final process and control enhancements will be targeted for implementation in a tiered approach based on risk beginning in the third quarter 2007 with full completion not later than the fourth quarter 2007.

Control Design Enhancement Recommendations

5. Incentive Plan Document

Collections Management should renew or update the 2006 Collections Incentive Plan, which shows an expiration date of December 31, 2006. We recommend that Management update the Collections Incentives Plan document to reflect process and control enhancements implemented in connection with this review.

Management Action Plan:

Management did not circulate a new Plan document in 2007 as the existing Plan had not changed. During the second quarter 2007, Senior Management has collaborated with Finance to introduce a new Plan document which offers a different payout scheme to motivate the agents based on liquidation rather than roll rate goals. The Plan has been approved by Office of the Chair and Finance and is in process of being updated for circulation to Human Resources and other committee members. The target date for completion is August 1, 2007.